

ANNUAL BUDGET OF **TLOKWE/VENTERSDORP MUNICIPALITY (NW 405)**



2017/18 TO 2019/20 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

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Abbreviations and Acronyms

AMR	Automated Meter Reading	ℓ	litre
		LED	Local Economic Development
BSC	Budget Steering Committee	MEC	Member of the Executive Committee
		MFMA	Municipal Financial Management Act
CFO	Chief Financial Officer	MIG	Programme
CPIX	Consumer Price Index	MMC	Municipal Infrastructure Grant
CRRF	Capital Replacement Reserve Fund	MPRA	Member of Mayoral Committee
DBSA	Development Bank of South Africa	MSA	Municipal Properties Rates Act
DORA	Division of Revenue Act	MM	Municipal Systems Act
DWARF	Department of Water Affairs and Forestry	MTEF	Municipal Manager
EE	Employment Equity	MTREF	Medium-term Expenditure Framework
EEDSM	Energy Efficiency Demand Side Management	NERSA	Medium-term Revenue and Expenditure Framework
EM	Executive Mayor	NGO	National Electricity Regulator South Africa
FBS	Free basic services	NKPI's	Non-Governmental organisations
			National Key Performance Indicators
GDP	Gross domestic product	OP	Operational Plan
GRAP	General Recognised Accounting Practice	PMS	Performance Management System
HR	Human Resources	PPE	Property Plant and Equipment
IDP	Integrated Development Strategy	RG	Restructuring Grant
IT	Information Technology		
kℓ	Kilolitre	SALGA	South African Local Government Association
Km	Kilometre	SAPS	South African Police Service
KPA	Key Performance Area	SDBIP	Service Delivery and Budget Implementation Plan
KPI	Key Performance Indicator	SMME	Small Micro and Medium Enterprises
kWh	Kilowatt		

Part 1 – Annual Budget

1.1 Introduction

The Tlokwe/Venterdorp Local Municipality, a new born Municipality through the amalgamations of the erstwhile Venterdorp Local Municipality and Tlokwe City Council was in no way immune to challenges as a result of turnover of key personnel, compliance matters, financial stress and the mSCOA reform.

MSCOA reform as an organisation transformation model established by National Treasury with a sole aim to enhancing the effectiveness, efficiency of service Delivery through a financial planning that is project orientated.

Management within local government has a significant role to play in strengthening the link between the citizen and government's overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the Tlokwe/Ventersdorp NW405. Budgeting is primarily about the choices that the Municipality has to make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound Financial Management principles for the compilation of the Municipalities Financial plan is essential and critical to ensure that the Municipality remains financially viable and that sustainable Municipal Services are provided economically and equitably to all communities.

Medium-Term budget 2017/2018 to 2019/2020

With the specific focus on securing a better life for the residents of NW405, the Municipality has essentially resulted in the development of this 2017/2018 Medium-term Revenue and Expenditure Framework (MTREF). The medium-term budget was compiled with a view to addressing key service delivery challenges, focussing on the priorities to ensure that indeed this Municipality works better for all its citizens, residents and businesses.

The Tlokwe/Ventersdorp NW405 Municipality has prepared this Budget for the 2017/2018 Financial Year, amounting to R1, 7 billion increasing to R1, 9 billion in 2019/2020. This represents an increase of R200 million. Resources have been allocated to uplift underdeveloped areas, maintain existing infrastructure and fulfil strategic priorities in the Integrated Development Plan (IDP).

The Budget recognizes that there are many exciting opportunities for Tlokwe/Ventersdorp NW405 Municipality and its residents, and acknowledging that there are a number of serious challenges that must be addressed to ensure ongoing prosperity and quality of life.

The Municipality is serious about meeting the challenges of creating a Municipality with an enabling environment for all citizens of the Tlokwe/Ventersdorp NW405 to utilise their full potential and access opportunities which will enable them to contribute towards a vibrant and sustainable economy.

1.2 Council Resolutions

On 30 May 2017 the Tlokwe/Ventersdorp NW405 will meet in the Gamatlawe Community Hall to consider the Annual Budget of the Municipality for the Financial Year 2017/2018. The Council will approve the following resolutions:

1. The Tlokwe/Ventersdorp NW405, acting in terms of Section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
 - 1.1. The Annual Budget of the Municipality for the Financial Year 2017/2018 and the Multi-Year and Single-Year Capital Appropriations as set out in the following tables:
 - 1.1.1. Budgeted Financial Performance (Revenue and Expenditure by Standard Classification).
 - 1.1.2. Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote).
 - 1.1.3. Budgeted Financial Performance (Revenue by source and Expenditure by Type).
 - 1.1.4. Multi-year and Single-Year Capital appropriations by Municipal Vote and Standard classification and associated Funding by Source.
 - 1.2. The Financial Position, Cash Flow Budget, Cash-Backed Reserve/Accumulated Surplus, Asset Management and Basic Service Delivery targets are approved as set out in the following tables:

- 1.2.1. Budgeted Financial Position.
 - 1.2.2. Budgeted Cash Flows.
 - 1.2.3. Cash Backed Reserves and Accumulated Surplus Reconciliation.
 - 1.2.4. Asset Management.
2. The Tlokwe/Ventersdorp NW405, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) Approves and Adopts with effect from 1 July 2017:
- 2.1 The tariffs for Property Rates – included in the Council Agenda,
 - 2.2 The tariffs for Electricity – included in the Council Agenda,
 - 2.3 The tariffs for the Supply of Water – included in the Council Agenda,
 - 2.4 The tariffs for Sanitation Services – included in the Council Agenda,
 - 2.5 The tariffs for Solid Waste Services – included in the Council Agenda,
3. The Tlokwe/Ventersdorp NW405, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) Approves and Adopts with effect from 1 July 2017 the tariffs for other services, as included in the Council Agenda.
4. To give proper effect to the Municipality's Annual Budget, the Tlokwe/Ventersdorp NW405 approves:
- 4.1. That Cash Backing is implemented through the utilisation of a portion of the Revenue generated from Property Rates to ensure that all Capital Reserves and Provisions, and unspent conditional Grants are Cash Backed as required in terms of the Municipality's Funding and Reserves Policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

4.2. That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above lending programme.

1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipalities' Financial Plan is essential and critical to ensure that the Municipality remains Financially Viable and that Municipal Services are provided sustainably, economically and equitably to all communities.

The Municipalities' business and service delivery priorities were reviewed as part of this year's Planning and Budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of Expenditures on noncore and 'nice to have' items. Key areas where savings were realized were on telephone and internet usage, printing, workshops, overseas and national travel, accommodation, and catering.

The Municipality has embarked on implementing a range of Revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the Municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 85,86 as well as the Cost Containment Measures were used to guide the compilation of the 2017/18 MTREF.

The main challenges experienced during the compilation of the 2017/18 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Amalgamation of Ventersdorp and Tlokwe, two separate tariff models used
- Ageing and poorly maintained Water, Roads, Sewerage and Electricity Infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the Municipality;

- The increased cost of Electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as a point will be reached where services will no-longer be affordable;
- Wage increases for Municipal Staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of Capital Projects – original allocations had to be reduced and the Operational Expenditure associated with prior year's Capital Investments needed to be factored into the Budget as part of the 2017/18 MTREF process; and

The following budget principles and guidelines directly informed the compilation of the 2017/18 MTREF:

- The 2016/2017 Adjustment Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2017/18 Annual Budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and Property Rate increases should be affordable and should generally not exceed inflation as measured by the CPIX, except where there are price increases in the inputs of services that are beyond the control of the Municipality, for instance the cost of Bulk Water and Electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2017/18 Medium-term Revenue and Expenditure Framework:

Table 1: Consolidated Overview of the 2017/18 MTREF

R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Total Operating Revenue	1, 551, 169	1, 572, 912	1 673, 361	1, 738, 248
Total Operating Expenditure	1, 724, 929	1, 711, 554	1 809, 487	1, 929, 279
(Surplus)/Deficit	173, 760	138, 641	136, 126	191, 031
Total Capital Expenditure	296, 096	241, 497	228, 739	238, 419

Total Operating Revenue has grown by 1.40% or R21.743 million for the 2017/2018 Financial Year. For the two outer years, Operational Revenue will increase by 6.39% and 3.88% respectively.

Total Operating Expenditure for the 2017/2018 Financial Year has been appropriated at R1.711 billion and translates into a Budgeted Deficit of R138.641 million. When compared to the 2016/17 Adjustment Budget, Operational Expenditure has decreased by R13.375 million or 0.78 % in the 2017/18 Budget. The deficits of the previous financial years as well as the Budgeted Operating Deficit for the 2017/2018 Financial Year are due to the high provision of Depreciation due to Revaluation of Assets and also high provision on traffic Impairment.

The Capital Budget of R241, 497 million for 2017/18 is 18.42% less than the 2016/17 Adjustment Budget. The Capital Programme will reduce to R228, 7 million in the 2018/2019 Financial Year and to R238, 4 million in 2019/2020. A substantial portion of the Capital Budget, R132, 9 million will be funded from Internal Funds. The balance will be funded from Government Grants and Transfers.

1.4 Operating Revenue Framework

For Tlokwe/Ventersdorp NW405 to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every Municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices

have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The Municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the City and continued economic development;
- Efficient revenue management, which aims to ensure a 95%- to 100% per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The Municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The Municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2017/2018 MTREF (Classified by main Revenue Source):

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, Capital Transfers and Contributions are excluded from the Operating Statement, as inclusion of these Revenue sources would distort the calculation of the Operating Surplus/Deficit.

Description Thousand	Current Year 2016/2017			2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Revenue By Source						
Property rates	166,504	163,504	163,504	171,632	181,759	191,937
Service charges - Electricity revenue	765,305	727,890	727,890	657,704	700,258	744,101
Service charges - water revenue	123,348	115,967	115,967	101,335	107,314	113,323
Service charges - sanitation revenue	71,690	65,093	65,093	68,786	72,844	76,923
Service charges - refuse revenue	53,013	63,303	63,303	61,489	65,117	68,763
Other revenue/grants	249,766	306,100	306,100	394,967	421,661	454,762
Total Revenue	1,429,626	1,441,857	1,441,857	1,455,912	1,548,902	1,649,810

Revenue generated from Rates and Service charges forms a significant percentage of the Revenue basket for the Municipality. Rates and Services Charge Revenues comprise more than two thirds of the Total Revenue mix.

Table: Operating Transfers and Grant Receipts

Grants and Subsidies	2017/18	2018/19	2019/20
Operating Grants			
Equitable Share	209 740 000	234 327 000	257 001 000
Financial Management Grant	4 045 000	4 301 000	4 561 000
System Improvements Grant	-	-	-
Municipal Demarcation Grant	4 566 000	-	-
Expanded Public Works	3 868 000	-	-
PMU	3 350 000	3 587 300	3 792 900
Library Grant (Provincial)	1 020 000	1 000 000	1 000 000
	226 589 000	243 215 300	266 354 900
Capital Grants			
Municipal Infrastructure Grant	64 500 000	68 158 700	72 065 100
Integrated National Electrification	10 000 000	10 000 000	10 000 000
Water Service Infrastructure	27 000 000	-	-
Regional Infrastructure Grant	6 300 000	40 000 000	-
Energy Efficient Grant	8 000 000	5 000 000	5 000 000
Library Grant	1 200 000	1 200 000	1 200 000
	117 000 000	124 358 700	88 265 100

The above table gives a breakdown of the various Operating Grants and Subsidies allocated to the Municipality over the medium term.

Tariff-setting is a pivotal and strategic part of the compilation of any Budget. When Rates, Tariffs and other Charges were revised, Local Economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage Municipalities to keep increases in Rates, Tariffs and other Charges as low as possible. Municipalities must justify in their Budget documentation all increases in excess of the 6.4% upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The Municipality's Electricity tariffs are largely outside the control of the outside factors (NERSA and ESKOM). Discounting the impact of these price increases in lower consumer tariffs will erode the Municipalities future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to Municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a Municipality are informed by items such as the cost of Remuneration, Bulk Purchases of Electricity and Water, Petrol, Diesel, Chemicals, Cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework, the Municipality has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property Rates cover the cost of the provision of general services. Determining the effective Property Rate tariff is therefore an integral part of the Municipality's Budgeting process. The Ventersdorp and Tlokwe regions will use two separate tariffs for the year 2017/18 financial and it will be amended in the 2018/19 financial, when both Valuation roll period lapses.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Local Government and Human Settlement. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the Non-Residential categories, Public Service Infrastructure and Agricultural Properties relative to Residential Properties to be 0, 25:1.

The implementation of these regulations was done in the 2010/11 Budget process and the Property Rates By-Law of the Municipality has been amended accordingly.

The following stipulations in the Property Rates By-Law are highlighted:

- The first **R15 000** of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R5 000 reduction on the market value of a property will be granted in terms of the Municipality's own Property Rates By-Law;
- 50% rebate will be granted to registered indigents in terms of the Indigent Policy;

- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 50% will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:
 - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;
 - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension; and
 - The property must be categorized as residential.
- The Municipality may award a 100 per cent grant-in-aid on the Assessment Rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer in the prescribed format for such a grant.

The categories of rateable properties for purposes of levying rates and the proposed rates for the 2017/18 Financial Year based on the new valuation roll from 1 July 2013 is contained below:

Table: Comparison of proposed rates to be levied for the 2017/18 financial year

Category	Proposed Tariff (1 July 2017)	Proposed tariff (from 1 July 2017)
	<i>Ventersdorp Region</i>	<i>Tlokwe Region</i>
	c in the Rand	c in the Rand
Residential properties	0.00608	0.41030
State properties	0.01883	1.230915
Business & Commercial	0.01825	1.230915
Agricultural	0.00152	0.102577
Municipal service property	0.00608	0.41030
Industrial	0.01825	1.230915
Public benefit organisation properties	0.02306	0.102577

1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with Electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

Tlokwe/Ventersdorp NW405 has undertaken an assessment of its Capital Infrastructure requirements. The assessment indicates that the current infrastructure regarding the water purification and sewerage works is unlikely to sustain its long-term ability to supply clean water and to clean the sewerage to be released in the Mooi River.

The Tlokwe/Ventersdorp NW405 is striving to retain its Blue Drop and Green Drop Status in the future.

A tariff increase of 6% from 1 July 2017 for water is proposed. In addition 6 kℓ Water per month will be granted free of charge to all Indigent households as per Council Policy.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

Table: **Proposed Water Tariffs**

CATEGORY	CURRENT TARIFFS 2016/17	PROPOSED TARIFFS 2017/18
	Rand per kℓ	Rand per kℓ
RESIDENTIAL		
(i) 7 to 16 kℓ per month	5.80	6.14
(ii) 17 to 36 kℓ per month	6.11	6.47
(iii) 37 to 56 kℓ per month	6.42	6.80
(iv) 57 to 80 kℓ per month	6.75	7.17
(v) More than 80 kℓ per month	7.27	7.70
NON-RESIDENTIAL		
(i) 0 – 5 000 kℓ per month	6.42	6.80
(ii) More than 5 000 kℓ per month	5.80	6.14
(iii) Schools, University and Colleges	6.11	6.47

1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised Bulk Electricity pricing structure. A 1.88 % increase in the Eskom Bulk Electricity tariff to municipalities will be effective from 1 July 2017.

Considering the Eskom increases, the consumer tariff had to be increased by 1.88% to offset the additional Bulk Purchase cost from 1 July 2017. Furthermore, it should be noted that given the size of the tariff increase, it is expected to depress growth in Electricity consumption, which will have a negative impact on the Municipality's Revenue from Electricity.

Registered indigents will be granted 80 kWh per month Free of charge.

The following table shows the impact of the proposed increases in Electricity tariffs on domestic customers:

Table: Domestic Block Tariffs (Single and 3 phase)

Monthly Consumption kWh	CURRENT TARIFFS 2016/17	PROPOSED TARIFFS 2017/18
0 - 50	1.2953	1.32
51 - 350	1.2953	1.32
351 - 600	1.5082	1.54
>601	1.7848	1.82

The fixed Charge levied in the 2016/2017 Financial Year amounted to **R54.11**. This fixed Charge increases to **R55.13** per month in the 2017/2018 Financial Year.

The inadequate Electricity Bulk capacity and the impact on service delivery and development remains a challenge for the Municipality. Most of the suburbs and inner city Reticulation Network was designed or strengthened in the early 1980's with an expected 20-25 year life-expectancy. The upgrading of the Municipality's Electricity Network has therefore become a Strategic Priority, especially the Substations and Transmission lines. The current and planned Capital Projects will partly address these shortfalls in the Electricity supply in the Tlokwe/Ventersdorp demarcated area.

The approved Budget for the Electricity Division can only be utilised for certain committed Upgrade Projects and to strengthen critical infrastructure (e.g. substations without back-up supply). It is estimated that additional special funding for Electricity Bulk Infrastructure to the amount of +- R 60 million per year for five additional years will be necessary to steer the Municipality's out of this predicament.

Owing to the increases in Eskom's Bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the Municipal Electricity tariff – as the resultant tariff increases would be unaffordable for the consumers. Municipal Council should consider raising loans to fund these Infrastructure Challenge. As part of the 2017/18 medium-term Capital Programme, funding has been allocated to

Electricity Infrastructure but these funding levels will require further investigation as part of the next Budget cycle in an attempt to source more funding to ensure this risk is mitigated.

1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of 6% for sanitation from 1 July 2017 is proposed. This is based on the input cost assumptions related to Water. It should be noted that Electricity costs contributes approximately 20% of Waste Water Treatment input costs, but taken the economy in consideration, the increase of Sanitation Tariffs is capped at 6% for 2017/2018. In the future, these tariffs need to be increased also to fund the upgrading of the sewerage works and sewerage network. The following factors also contribute to the proposed tariff increase:

- The total Revenue expected to be generated from rendering this service amounts to R63 million for the 2017/18 financial year.

The Following Table compares the Current and Proposed Tariffs:

Table 10: Comparison between Current Sanitation charges and increases

CATEGORY	Current Tariff 2016/2017		Proposed Tariff 2017/2018	
Residential	Standard rate	R117.22	Standard Rate	R 124.25

1.4.5 Waste Removal and Impact of Tariff Increases

Currently Solid Waste Removal is Operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Municipality will have to implement a Solid Waste Strategy to ensure that this Service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are Repairs and Maintenance on Vehicles, increases in General Expenditure such as Petrol and Diesel and the Cost of Remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of Solid Waste function be undertaken, and that this include investigating alternative Service Delivery Models. The outcomes of this investigation will be incorporated into the next planning cycle. A 6% increase in the Waste Removal tariff is proposed from 1 July 2017. Higher increases will not be viable in 2017/18 owing to the significant increases implemented in previous Financial Years as well as the overall impact of higher than inflation increases of other services. Any increase higher than 6% would be counter-productive and will result in affordability challenges for individual Rates Payers raising the risk associated with Bad Debt.

The following table compares Current and Proposed amounts payable from 1 July 2017:

Table: Comparison between current waste removal fees and increases

DESCRIPTION	Current Tariffs 2016/2017	Proposed Tariffs 2017/2018
	Waste Removal R	Waste Removal R
240 l container removed once a week	124.00	131.00
85 l container removed twice a week	124.00	131.00
Business	231.00	245.00

1.4.6 Overall impact of tariff increases on households

The attached tables show the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services. See attached tables:

Description			
	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Rand/cent			
Monthly Account for Household - 'Middle Income Range'			
Rates and services charges:			
Property rates	311.45	330.14	349.95
Electricity: Basic levy			
Electricity: Consumption	2439.03	2736.58	2951.13
Water: Basic levy	49.40	52.38	55.52
Water: Consumption	23.20	24.60	26.08
Sanitation	117.20	124.24	131.70
Refuse removal	124.02	131.47	139.36
Other			
sub-total	3,064.30	3,399.41	3,653.74
VAT on Services	385.40	429.70	462.53
Total large household bill:	3,449.70	3,829.11	4,116.27
% increase/-decrease	7.48%	11.00	7.50%
Monthly Account for Household - 'Affordable Income Range'			
Rates and services charges:			
Property rates	113.40	120.21	127.43
Electricity: Basic levy			
Electricity: Consumption	1043.53	1,125.35	1,213.58
Water: Basic levy	49.40	53.37	55.52
Water: Consumption	238.25	252.55	267.71
Sanitation	117.23	124.27	131.73
Refuse removal	124.02	131.47	139.36
sub-total	1,685.83	1,807.22	1,935.33
VAT on Services	220.14	236.19	253.11
Total small household bill:	1,905.97	2,043.41	2,188.44
% increase/-decrease	7.16%	7.21%	7.10%

1.5 Operating Expenditure Framework

The Tlokwe/Ventersdorp NW405's Expenditure Framework for the 2017/18 Budget and MTREF is informed by the following:

- The Asset Renewal Strategy and the Repairs and Maintenance Plan;
- Balanced Budget constraint (Operating Expenditure should not exceed Operating Revenue) unless there are existing uncommitted Cash-Backed Reserves to fund any Deficit;
- Funding of the Budget over the Medium-Term as informed by Section 18 and 19 of the MFMA;
- The Capital Programme is aligned to the Asset Renewal Strategy and Backlog Eradication Plan;
- Operational Gains and efficiencies will be directed to Funding the Capital Budget and other Core Services; and
- Strict adherences to the principle of no Project Plan no Budget. If there is no Business plan, no Funding allocation can be made.

The following table is a High level Summary of the 2017/18 Budget and MTREF (classified per Main Type of Operating Expenditure):

Table: Summary of Operating Expenditure by Standard Classification Item

DESCRIPTION	2017/2018	2018/2019	2019/2020
Personnel Expenditure	430,067,327	456,774,211	485,920,720
Administrative Expenditure	313,001,309	318,497,722	336,945,317
General Consumables	15,085,515	15,975,560	16,902,143
Maintenance Equipment	32,228,282	34,129,751	36,109,276
Maintenance Buildings	11,848,160	12,354,625	12,881,882
Maintenance Infrastructure	45,937,765	48,648,093	51,469,682
Professional and Special Services	105,943,723	109,022,541	115,537,901
Transfer Payments- Capital	216,791,919	229,582,642	242,898,435
Purchase of Electricity	520,000,000	561,600,000	606,528,000
Purchase of Water	20,650,000	22,302,000	24,086,160
TOTAL	1,711,554,000	1,809,407,517	1,929,279,516

The Budgeted Allocation for **Employee Related Costs** for the 2017/18 Financial Year totals R430.067 million, which equals 25.13% of the Total Operating Expenditure. A new collective SALGBC agreement regarding salary increases was negotiated for the following Financial years, therefore only a 7,36% increase was Budgeted for 2017/18 as indicated by MFMA Circular Nr 85.

The cost associated with the Remuneration of Councillors is determined by the Minister of Local Government and Human Settlement in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's Budget.

Revenue projection on levied services on an Annual Collection rate of 84%.

Provision for Depreciation and Asset impairment has been informed by the Municipality's Asset Management By-Law. Depreciation is widely considered a proxy for the measurement of the rate Asset Consumption. Budget appropriations in this regard total R307.2 million for the 2017/18 financial and equates to 18.% of the Total Operating Expenditure. Note that the implementation of GRAP 17 Accounting Standard has meant bringing a range of Assets previously not included in the Assets Register onto the register. This has resulted in a significant increase in Depreciation relative to previous years.

Bulk Purchases are directly informed by the Purchase of Electricity from Eskom and Water from Department of Water Affairs. The annual price increases have been factored into the Budget appropriations and directly inform the Revenue provisions. The Expenditures include Distribution losses.

General Consumables and **Repairs and Maintenance** amounts to R105.0 million for the 2017/18 Financial Year.

Professional and Special Services for the 2017/18 Financial Year amounts to R105.9 million.

Administrative Expenditure comprises of various line items relating to the daily operations of the Municipality. This group of Expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. The Remuneration of councillors is also included in this expenditure category.

1.5.1 Priority given to Repairs and Maintenance

Aligned to the priority being given to preserving and maintaining the Municipality's current Infrastructure, the 2017/18 Budget and MTREF provide for extensive growth in the area of Asset Maintenance, as informed by the Asset Renewal Strategy and Repairs and Maintenance Plan of the Municipality. In terms of the Municipal Budget and Reporting Regulations, Operational Repairs and Maintenance is not considered a direct Expenditure driver but an outcome of certain other Expenditures, such as Remuneration, Purchases of Materials and Contracted Services.

The current budget for Repairs and Maintenance is still low as per the National Treasury guideline. Conservative approach in the allocation of resources and other spending to prioritise Repairs and maintenance allocations.

1.5.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy.

The cost of the Social Package of the registered Indigent Households is largely financed by National Government through the Local Government Equitable Share received in terms of the Annual Division of Revenue Act.

Current indigent grant 2016/2017	R
Basic Services (VAT included)	53.71
Sewerage (VAT included)	125.13
Refuse Removal (VAT included)	<u>132.33</u>
Total	<u>311.17</u>

Property Rates (50% of property rate levied)
6kl water free of charge
80kwh free Electricity

Proposed indigent grant 2017/2018	R
Basic Services (VAT included)	56.93
Sewerage (VAT included)	132.64
Refuse Removal (VAT included)	<u>140.27</u>
Total	<u>329.84</u>

Property Rates (50% of property rate levied)
6kl water Free of charge
80kwh free Electricity

1.6 Capital expenditure

The allocation for Projects in the Capital Budget in the 2017/18 Financial Year is indicated per Municipal Vote in the following table:

Table: Capital as per Municipal Vote

Vote Description R thousand	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Capital expenditure - Vote			
Vote 1 - Executive Mayor	21 500	-	-
Vote 2 - Office of the Speaker	2,673,500	1,219,000	816,000
Vote 3 - Municipal Manager	504,900	-	-
Vote 4 - Budget and Treasury Office	60,000	525,000	30,000
Vote 5 - Public Safety	12,968,000	33,494,000	15,612,000
Vote 6 - Corporate Services	8,575,085	2,993,000	-
Vote 7 - Infrastructure	178,895,500	159,359,000	213,461000
Vote 8 - Department Environmental Management	10,615,000	12,950,000	-
Vote 9 - Sports, Arts and Culture	14,890,000	18,200,000	-
Vote 10 - Human Settlement and Planning	624,400	-	-
Vote 11- Economic Development	11,670,000	-	8,500,000
Total Capital Expenditure – Vote	241,497,885	228,739,726	238,419,322

1.7 Annual Budget

The Budget comprises of the Following Tables which will be included in the Budget Book:

- Consolidated Operating and Capital Budget (A1-A10)
- Operating and Capital Budget Schedules (SA1-SA37)